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2                                   **PUBLIC SERVICE COMMISSION OF WISCONSIN**

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5   **Application of Milwaukee Water Works,**  
6   **Milwaukee County, Wisconsin, for**  
7   **Authority to Increase Water Rates**

**Docket No. 3720-WR-107**

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10                           **DIRECT TESTIMONY OF ANDREW MOSCHEA**  
11                           **ON BEHALF OF MILLERCOORS, LLC**

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13   **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

14   **A.**     My name is Andrew Moschea, and my business address is 3939 West Highland  
15             Boulevard, Milwaukee, Wisconsin 53208.

16   **Q.     BY WHOM ARE YOU EMPLOYED, AND WHAT IS YOUR POSITION?**

17   **A.**     I am currently employed by MillerCoors, LLC, and was employed by Miller Brewing  
18             Company for nearly three years prior to the merger of Miller and Coors in the summer of  
19             2008. I began my career at MillerCoors as Director of Corporate Operations, then moved  
20             to positions in the brewery. My current position is Brewery Vice President–Milwaukee,  
21             and I have held that position since the merger.

22   **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
23             **BACKGROUND.**

24   **A.**     I earned a Bachelor's degree in Economics and Management from Beloit College and an  
25             Masters of Business Administration from Wayne State University. Before I became  
26             employed by Miller Brewing Company, I was Vice President-Central Region for  
27             Underwriters Laboratories, Inc. in Northbrook, Illinois. Prior to that, I worked for  
28             Textron, Inc. in Providence, Rhode Island for 12 years.

1    **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2    **A.**    My testimony addresses four general topics:

3        1.     I will describe MillerCoors' Milwaukee operations;

4        2.     I will describe and quantify MillerCoors' water use at its Milwaukee brewery;

5        3.     I will describe the projected monetary impact of Public Service Commission

6            Staff's suggested cost allocation in Milwaukee Water Works' rate case

7            proceeding, and contrast it to what was initially suggested by Milwaukee Water

8            Works; and

9        4.     I will describe the potential impact of Staff's rate hike on brewery operations.

10   **Q.     PLEASE BRIEFLY DESCRIBE MILLERCOORS' OPERATIONS AT ITS**

11       **MILWAUKEE BREWERY.**

12   **A.**    MillerCoors operates a brewery in the Menomonee Valley on the west side of

13        Milwaukee. Miller beer has been brewed on the same site for 150 years. The Milwaukee

14        brewery is the oldest large-scale brewing operation in the United States. The location of

15        the brewery was originally chosen for its proximity to a good water source. Today, the

16        brewery produces 8.2 million barrels of beer per year. We make Miller Genuine Draft,

17        Miller Lite, Miller High Life, and approximately 50 other brands of beer at the

18        Menomonee Valley brewery. The brewery is by far the largest in Wisconsin. It is also

19        the fifth-largest of the eight breweries MillerCoors operates around the United States.

20   **Q.     HOW MANY EMPLOYEES DOES MILLERCOORS HAVE IN MILWAUKEE?**

21   **A.**    We employ approximately 1500 people in Milwaukee between the brewery and

22        management offices. Of that number, approximately 550 are union employees belonging

1 to seven different unions. Elsewhere in Wisconsin, we employ approximately 200 more  
2 employees.

3 **Q. IN ADDITION TO THE EMPLOYEES WHO WORK FOR MILLERCOORS**  
4 **DIRECTLY, DOES THE COMPANY SUPPORT OTHER JOBS IN WISCONSIN?**

5 **A.** Yes. Besides those employed directly by MillerCoors, the company directly supports  
6 literally thousands of additional jobs around the state by purchasing its labels, packaging  
7 materials, cans, equipment, malt, and chemicals from Wisconsin companies. Further,  
8 MillerCoors' Milwaukee brewery uses two Wisconsin trucking companies—Schneider  
9 National and Millis Transport—to transport its beer. The company also supports a wide  
10 range of local distributors. Finally, MillerCoors is a contract brewer for a number of  
11 other labels, including Pabst and Schlitz.

12 **Q. WHERE DOES MILLERCOORS GET ITS WATER?**

13 **A.** We purchase our water from Milwaukee Water Works.

14 **Q. PLEASE DESCRIBE HOW WATER IS USED IN THE BREWING PROCESS.**

15 **A.** The vast majority of water we buy from the Milwaukee Water Works goes into the beer  
16 we brew—it is the single largest component. In addition, we use significant amounts of  
17 water in the brewing process for cleaning, pasteurization, lubrication and rinsing  
18 containers. Also, we use significant amounts of water at our administrative offices. All  
19 of this water use makes MillerCoors Milwaukee Water Works' single largest customer.

20 **Q. HOW MUCH WATER DOES MILWAUKEE'S MILLERCOORS BREWERY**  
21 **USE PER YEAR?**

1    **A.**     We used about 1.14 billion gallons (or 152.5 million cubic feet) of water in the brewery  
2           over the last year, which was a fairly typical year for us. We paid about \$1.22 million for  
3           that water.

4    **Q.     WHAT RATE DOES MILLERCOORS CURRENTLY PAY FOR ITS WATER?**

5    **A.**     MillerCoors currently pays the “urban industrial” rate for its water.

6    **Q.     WHAT IS YOUR UNDERSTANDING ABOUT THE RATE MILWAUKEE**  
7           **WATER WORKS PROPOSED FOR MILLERCOORS?**

8    **A.**     My understanding is that Milwaukee Water Works proposed a rate increase of about 28%  
9           across all rate classes, corresponding to a target rate of return of 5% for accounts in the  
10          City of Milwaukee, and 6.5% for wholesale accounts. It was our understanding that  
11          when costs were allocated across customer classes, the rate increase for MillerCoors  
12          would be somewhat less than that—closer to 21-22%.

13   **Q.     DID THE PUBLIC SERVICE COMMISSION STAFF’S SUGGESTED RATE**  
14          **ALLOCATION DEPART FROM WHAT WAS PROPOSED BY THE CITY OF**  
15          **MILWAUKEE?**

16   **A.**     Yes, it did.

17   **Q.     PLEASE EXPLAIN.**

18   **A.**     When the Staff issued its “Cost of Service Study and Rate Design Proposal,” it contained  
19          a suggested rate increase for urban industrial customers such as MillerCoors of 38.9%.  
20          According to the study, this would increase the bills of large industrial customers that  
21          have eight-inch meters, like MillerCoors, by 49.8%. This, obviously, is a considerably  
22          greater increase than was originally proposed by Milwaukee Water Works.

1 **Q. WHAT WOULD BE THE MONETARY IMPACT IF MILWAUKEE WATER**  
2 **WORKS IS ALLOWED TO RAISE THE URBAN INDUSTRIAL RATE BY**  
3 **38.9%, AND MILLERCOORS' BILLS BY NEARLY 50%?**

4 **A.** MillerCoors' water bills would rise significantly, likely in excess of \$600,000 for its  
5 Milwaukee brewery operations.

6 **Q. WHAT IMPACT COULD THE STAFF'S RATE INCREASE HAVE ON**  
7 **OPERATIONS AT THE MILWAUKEE BREWERY?**

8 **A.** To begin with, Miller and Coors merged in the summer of 2008. The proposed rate  
9 increase comes at a time when the combined company is considering how best to  
10 maximize the cost-effectiveness of its brewing operations, including transitioning and  
11 integrating products across its national network of eight breweries. The Milwaukee  
12 brewery already pays more for water than several other breweries that use municipal  
13 water in the MillerCoors network, including breweries in Texas and California. As it  
14 relates to water rates, therefore, the immediate impact of the rate increase would be to  
15 make the Milwaukee brewery less competitive as compared to other, newer MillerCoors  
16 breweries in other states. That could potentially mean that production, and the associated  
17 jobs, could be transitioned to other breweries in our network. Given the prolonged  
18 economic downturn, that is something that neither the brewery nor the State should allow  
19 to happen.

20 **Q. WHY IS MILLERCOORS OBJECTING TO THE COMMISSION STAFF'S**  
21 **PROPOSED RATE DESIGN, WHEN IT DID NOT OBJECT TO MILWAUKEE**  
22 **WATER WORKS' RATE DESIGN?**

1    **A.**     MillerCoors understands that Milwaukee Water Works has experienced increased costs  
2           and that some type of rate adjustment may be necessary. MillerCoors was aware of the  
3           proposed cost allocation and revenue requirements outlined by Milwaukee Water Works,  
4           and worked with Milwaukee Water Works as it designed its proposed cost allocation and  
5           rate design.

6           However, as discussed above, the Commission Staff's "Cost of Service Study and Rate  
7           Design Proposal" specified that large industrial customers like MillerCoors would see a  
8           38.9% rate increase, translating into a nearly 50% increase in their water bills. This was  
9           significantly greater than MillerCoors had anticipated. It was this significant increase  
10          proposed by Commission Staff, not Milwaukee Water Works, that prompted MillerCoors  
11          to intervene to examine the Staff's proposed rate design. MillerCoors is concerned about  
12          the fairness of the Staff's recommendation, and also concerned that, if this revised rate  
13          allocation is adopted, it will skew the allocation and create an even higher starting point  
14          in future rate proceedings.

15   **Q.     ARE YOU AWARE THAT STAFF FILED REVISIONS TO ITS COST OF**  
16       **SERVICE STUDY AND RATE DESIGN PROPOSAL EARLIER TODAY?**

17   **A.**     Yes, but I have not had a chance to study it in any detail prior to filing testimony. My  
18           direct testimony is based on Staff's April 1 cost of service study and rate design proposal,  
19           and I reserve the right to comment on Staff's recent revisions in rebuttal testimony.

20   **Q.     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21   **A.**     Yes, it does.